SPOTLIGHT: Movie and Television Production in BC

FEATURE: Capital Expenditure in the West: Not Just Oil and Gas

OPINION: Bucking Trends: Saskatchewan Just Keeps Growing

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CURRENTS Western Canada's Monthly Economic Bulletin

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Monthly Economic Highlights

Canadian employment declined by 61,300 in March, marking the fastest five-month job loss (-2.1%) since the 1982 recession. BC (-22,600) and Alberta (-14,900) had the largest job declines in March, mainly in construction and natural resources. Employment also fell in Manitoba (-4,200) and Saskatchewan (-2,700). Despite recent increases, unemployment rates in the four western provinces remain the lowest in the country.

Retail sales bounced back nationally (+1.9%) but the gain did not offset the 5.2% steep decline of the previous month. Sales were up across the country except in Manitoba (-0.6%). BC (+3.1%) and Saskatchewan (+2.9%) were among the growth leaders.

Wholesale trade fell 4.2% for Canada as a whole, the fourth decline in a row. Sales were up strongly in Saskatchewan (+13.7%) after four consecutive declines. Manitoba also posted growth (+5.6%). In both cases, the "other products" sector (which includes agricultural fertilizers and supplies) was behind most of the increase.

CPI inflation in February was higher in the West than in the rest of the country. With the national inflation rate at 1.4%, the highest price increases took place in Saskatchewan (+2.6%), followed by Alberta (+2.1%) and Manitoba (+1.7%) and were mainly the result of higher mortgage interest costs.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,240	1,987	520	604	16,838	March
% change	-1.0	-0.7	-0.5	-0.7	-0.4	
Unemployment rate (%)	7.4	5.8	4.7	5.1	8.0	March
change in percentage points	0.7	0.4	0.0	0.3	0.3	
Participation rate (%)	65.7	74.3	70.3	69.3	67.3	March
Average weekly earnings ($)	798.70	955.35	802.43	765.96	823.71	January
% change	1.1	0.8	1.1	0.4	1.1	
Inflation						
Consumer Price Index (% change)*	1.5	2.1	2.6	1.7	1.4	February
Economic Activity						
Housing starts (000s)**	16.4	13.1	4.0	4.1	134.7	February
% change	-9.4	-23.8	5.3	13.9	-12.2	
Retail trade ($ millions)	4,387	4,799	1,160	1,197	33,666	January
% change	3.1	1.6	2.9	-0.6	1.9	
Wholesale trade ($ millions)	4,174	5,526	1,701	1,061	41,112	January
% change	0.4	-0.6	13.7	5.6	-4.2	
Manufacturing sales ($ millions)	2,841	5,023	907	1,239	41,651	January
% change	-3.0	0.6	-0.9	-4.9	-5.4	

** Compared to same month in the previous year ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels)*
Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp

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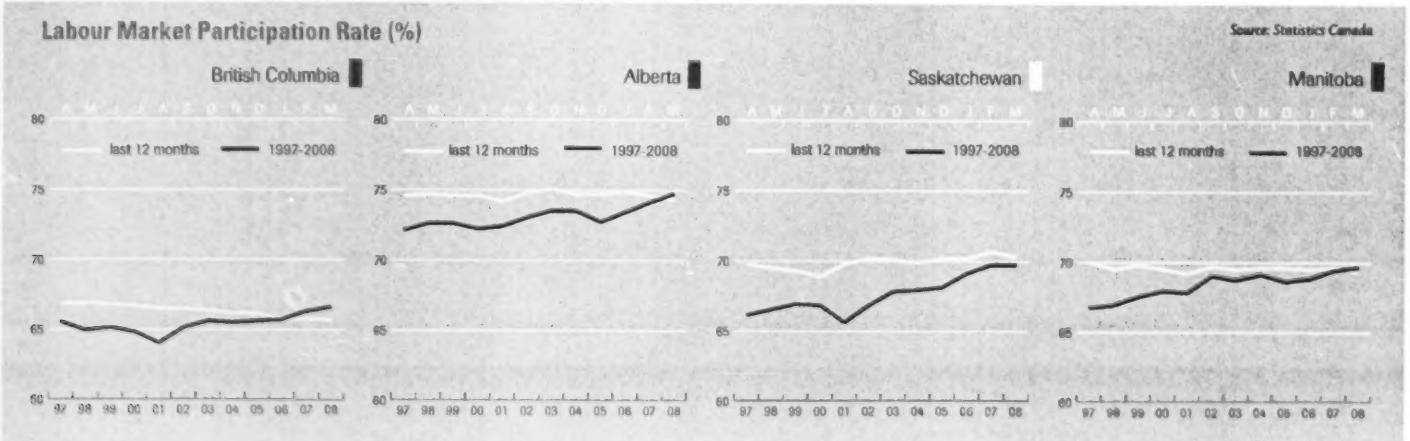

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MONTHLY FEATURE

CAPITAL EXPENDITURE IN THE WEST: NOT JUST OIL AND GAS

he topic of investment in infrastructure has been all over the recessionary economic news recently. Infrastructure is perceived as a "less bad" type of government-led economic stimulus because a physical asset is left after the spending is over, which is not always the case. This matters as most of our governments are switching back to deficit mode.

In February, Statistics Canada released the results of its Private and Public Investment survey of actual and intended capital expenditures (which is widely known as PPI). While this data likely doesn't include most of the announcements from the last wave of budgets, it is an important indicator of things to come and is especially useful in comparing capital investments by governments to those of the private sector. Capital investment represents an increase in production capacity and (usually) an increase in a jurisdiction's potential productivity. As such, the PPI survey is highly-scrutinized by economists.

As a region, the West enjoyed strong capital investment growth from 2003 to 2008, powered mostly by Alberta and BC. Due to the strong growth, investment in the West has been catching up significantly with the amount spent in the rest of the country.

Capital investment in the West has for a long time been synonymous with oil and gas. In 2008, more than 30% of PPI spending in the West (or $46 billion) took place in that industrial sector. But

Did you know?

- According to BC Stats, Invermere, Ashcroft and Dawson Creek are the most economically diversified local areas in BC.
- The Red River basin covers 116,500 km^2, the size of the state of Ohio. The average slope of the Red River over its 877 km length is 8 cm per kilometre, or less than 0.1%.
- Of the 165 countries surveyed by *The Economist*, Canada ranks third behind Norway and Denmark in terms of political stability.
- The expected amount for future settlement of aboriginal land claims is estimated to be between $6 and $10 billion.
- Saskatchewan's highest point at 1,468 metres is located in the Cypress Hills. It is also the highest geographical point between the Rocky Mountains and Quebec.
- At 11.2%, Alberta's visible minority ratio of its overall population ranks third among provinces, with BC (21.6%) and Ontario (19.1%) topping the list.

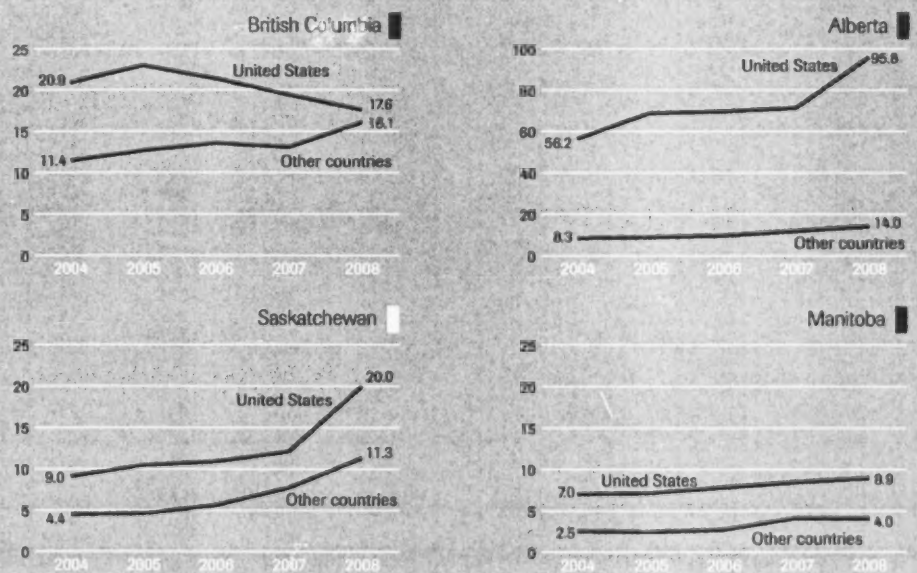
BEHIND THE NUMBERS

While the West's exports to the US continued to grow in 2008, exports to other countries have recently been growing at a faster rate in most western provinces. New markets showing impressive growth include Russia and Iran for Manitoba (mainly farm machinery and wheat) and India and Algeria for Saskatchewan (mainly wheat, potash and dry peas and lentils).

BC's exports to the US are in gradual decline due to lower demand for lumber; however, higher exports to South Korea and Brazil (mainly coal) have kept total BC exports growing.

Merchandise Exports, 2008 and 2004-08 ($ billions)

Source: Industry Canada



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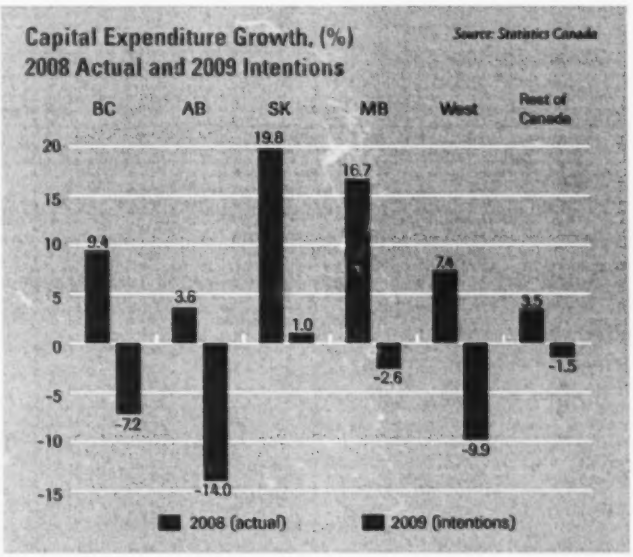
the West has also been turning its capital investment attention to less tangible areas like human capital and quality of life. The amounts are lower but the growth is significant. After flat lining from 1993 to 1998, capital investment in education is now more than three times what it was ten years ago at $3.6 billion. Capital investment in the health sector has nearly been multiplied by a factor of five over that period, reaching $3.1 billion in 2008, with 2009 investment expected to remain just as high. These numbers pale however compared to investment in government infrastructure ($13.2 billion in 2008), which experienced even faster growth since 1998. Transportation and warehousing was another important sector in terms of capital investment ($11.3 billion in 2008).

By province, Alberta is the location of more than half of the amounts invested despite representing only one third of the West's population. However, Saskatchewan has been showing the most momentum over the last four years. In fact, Saskatchewan is the only province in the West with an intended increase in investment for 2009.

Overall, the West is expected to suffer an almost 10% drop in capital investment in 2009 compared to a milder 1.5% drop in the rest of Canada. With the decline in oil prices, investment intentions for oil and gas are lower for 2009 but not as dramatically as newspaper headlines would imply. While 2009 investment in the sector is expected to be 31% and 35% lower than the previous year in Alberta and Saskatchewan respectively, this decline only brings it back to the 2004 investment level, well above $30 billion.



Industry Spotlight: Movie and Television Production in British Columbia

Vancouver is the third largest film and television production centre in North America after California and New York. The industry directly employs 20,000 people, as well as over 10,000 people indirectly. In 2008 alone, 260 productions were shot in BC, injecting over $1.2 billion into the provincial economy. The emergence of "Hollywood North" reflects coordinated efforts by industry, government, and unions.

The BC government provides producers with a film incentive tax credit of 35% and a production services tax credit of 25%. An additional tax credit is available if most or all of a production is shot outside of the greater Vancouver area.

Several organizations currently support BC's film and television sector. They include the BC Film Commission (a branch of the provincial government responsible for marketing BC as a production location), BC Film (a not-for-profit society aimed at expanding and diversifying the industry) and the Motion Picture Production Association of BC. Recent movies and television series shot in BC include Fantastic Four, X-Men, Juno, Firewall, Battlestar Galactica, Eureka, and Stargate.

Photo credit: BC Film Commission

An episode of the television series "Stargate" being filmed in White Rock, B.C.

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Saskatchewan Just Keeps Growing

by Jacques Marcil, Senior Economist

With job layoffs and uncertainty spreading across the country, it is hard to believe how good things have been in Saskatchewan recently. Whether one looks at resources, employment, population or government finances, the province seems to be immune to the travails of the outside world.

There is a clear consensus that Saskatchewan's economy was Canada's top performer in 2008. Whether the bulk of that growth will carry into 2009 is another question.

The 2008 highlight for Saskatchewan was certainly the price of potash, which represented one of the few exceptions to the overall drop in world commodity prices. The steady price growth of the last few years for metals, energy and crops was brought to an abrupt end last year. In spectacular contrast, the price of potash more than tripled last year and is now nearly six times what it was over the 15 previous years.

In addition, record job creation numbers in 2008 put Saskatchewan among the top provinces in employment growth. Some areas of the economy even faced labour shortages, to the point that Premier Wall visited job fairs outside the province to try to attract new workers.

Last year also marked the province's return above the million mark in population, a level last reached in 2001. Saskatchewan's population growth in 2008 was the strongest in almost fifty years both in terms of growth rate and level. One third of this advance was the result of a positive interprovincial migration balance for the second year in a row. International migration played a role as well.

Things were so good in 2008 that the government used its 2009 budget to clear its tax policy backlog well ahead of the next election while still balancing its books, with reforms of school property taxes and local government funding. On top of this, new money was found for infrastructure investments in schools, roads and hospitals.

That was 2008. The current year is turning out to be quite different at the global level, which makes things more uncertain for an export-driven economy like Saskatchewan's.

While the worldwide economic downturn may keep potash sales low in 2009, most of the restraint will come from the fact that Russian and Canadian producers will be managing supplies in an OPEC-like approach to keep prices high. Production reductions have already been announced in Saskatchewan at the beginning of this year.

A high potash price is good news for the provincial government, which collects royalties based on the value of sales. The shutdowns leading to it are however bad news for the 3,500 people employed in the industry. Although early data for 2009 do not point toward significant economy-wide job losses, growth in line with last year's has not yet been observed.

These uncertainties and a multitude of other ones should have led the provincial government to show a high degree of prudence as it prepared its budget. This is hardly the case. The budget expects more potash price growth on top of a 2008 average level which is already very high from a historical perspective. This optimism is also present in the government's forecast of 2.1% economic growth in 2009, well ahead of the private sector consensus. Many analysts find the government's crystal ball to be too rose-coloured.

Even if Saskatchewan's economy is more diversified than ever, the source of its prospective economic growth for 2009 is less so. The Saskatchewan outlook for 2009 hangs on the extraordinary scale now reached by potash prices, which is really what is making the province stand out among its peers.

A scenario where by the end of this year potash exports are the only rosy aspect of an otherwise grey economic landscape is within the realm of possibility for the province. If this were to happen, however, Saskatchewan should still outperform the rest of the country, even with a growth rate well below what it was in 2008. ■